

Message Text

CONFIDENTIAL

PAGE 01 MANILA 16434 01 OF 02 212305Z

70

ACTION EB-07

INFO OCT-01 EUR-12 EA-07 ISO-00 AGR-05 IO-10 COME-00 SP-02

AID-05 NSC-05 CIEP-01 TRSE-00 SS-15 STR-04 OMB-01

CEA-01 L-03 ARA-06 AF-06 CIAE-00 DODE-00 PM-04 H-02

INR-07 NSAE-00 PA-01 PRS-01 USIA-06 FRB-03 SIL-01

LAB-04 /120 W

----- 116476

R 210914Z NOV 75

FM AMEMBASSY MANILA

TO SECSTATE WASHDC 9680

INFO AMEMBASSY OTTAWA

AMEMBASSY TOKYO

C O N F I D E N T I A L SECTION 1 OF 2 MANILA 16434

E. O. 11652: GDS

TAGSC EAGR, RP

SUBJECT: PHILIPPINE SUGAR POLICY

1. ON MORNING NOVEMBER 20, PHILIPPINE DAILY EXPRESS, WHICH IS CONTROLLED BY PHILIPPINE AMBASSADOR TO JAPAN ROBERTO BENEDICTO, CARRIED PROMINENT FRONT PAGE STORY LAUDING CURRENT PHILIPPINE SUGAR POLICY. ARTICLE, WHICH DISCUSSED AT FULLER LENGTH IN SEPTEL, BOASTS THAT PHILIPPINE EXPORT CORPORATION, BY HOLDING PHILIPPINE SUGAR OFF THE WORLD MARKET, HAS KEPT THE PRICE OF SUGAR HIGH AND HAS CONTRIBUTED TO PROSPERITY OF PHILIPPINES. IT ALSO GIVES HIGH MARKS TO PHILIPPINE SAGACITY IN COLLABORATING WITH CUBA ON SUGAR SALES POLICY. SINCE THESE FEATURES OF SUGAR POLICY HAVE BEEN INSPIRED BY BENEDICTO, IN HIS CAPACITY AS "SUGAR CZAR," ARTICLE AMOUNTS TO A HIGHLY SUBJECTIVE APOLOGIA.

2. AFTERNOON NOVEMBER 20, I HAD LONG TALK WITH DON MANOLO ELIZALDE, PRESIDENT OF PHILIPPINE SUGAR ASSOCIATION, WHO WAS FAIRLY APOPLETIC ABOUT BOTH THE EXPRESS ARTICLE AND
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PAGE 02 MANILA 16434 01 OF 02 212305Z

THE PRESENT SITUATION IN THE LOCAL SUGAR INDUSTRY.

ACCORDING TO ELIZALDE, NEARLY 850,000 TONS OF RAW SUGAR REMAINS UNSOLD AND, AS THE NEW MILLING SEASON PROGRESSES, HE EXPECTS OVER 1,000,000 TONS TO BE UNSOLD BY EARLY 1976.

3. ELIZALDE SAYS THIS AMOUNT OF SUGAR DEPRESSES THE WORLD MARKET PRICE, BECAUSE IT IS KNOWN TO BE AVAILABLE. THEREFORE, BENEDICTO'S ARTICLE IS PATENT NONSENSE. MOREOVER, ACCORDING TO ELIZALDE, THE STORED SUGAR IS BEGINNING TO CRYSTALLIZE OR TURN TO MOLASSES. THEREFORE, IT IS A WASTING PHILIPPINE ASSET. BESIDES THESE FACTORS, THERE ARE NO RPT NO STORAGE FACILITIES AVAILABLE FOR THE NEW CROP AND NONE IS IN SIGHT. NEVERTHELESS, THE MILLS ARE INSTRUCTED BY THE PHILIPPINE NATIONAL BANK TO KEEP MILLING AND ARE RECEIVING QUEDANS WHICH PNB CONTINUES TO HONOR WITH CASH. THIS MEANS THE BANK CONTINUES TO PAY OUT FOR A WASTING ASSET WHICH IS NOT BEING SOLD AND IS DEPRESSING THE MARKET.

4. ELIZALDE FEELS THAT NEARLY ALL THIS STORED SUGAR COULD HAVE BEEN SOLD IN THE U.S. MARKET IF IT HAD BEEN MOVED AT NEW YORK SPOT PRICES. HE FEELS BENEDICTO'S POLICIES HAVE DEPRIVED PHILIPPINES OF HUNDREDS OF MILLIONS OF DOLLARS OF FOREIGN EXCHANGE AND HAVE EARNED THE PHILIPPINES THE REPUTATION OF BEING AN UNRELIABLE SUPPLIER TO U.S. MARKET, CONTRARY TO IMAGE WHICH ELIZALDE AND OTHERS HAVE SPENT YEARS CULTIVATING. FINALLY, ELIZALDE SAID THAT PLANTERS ARE BECOMING DISCOURAGED AND WILL RESTRICT THEIR PRODUCTION NEXT YEAR, AT A TIME WHEN PRICES MIGHT BE EXPECTED TO IMPROVE.

5. I ASKED ELIZALDE WHAT HE AND OTHERS IN SUGAR INDUSTRY WERE DOING ABOUT SITUATION. HE SAID HE HAD DISCUSSED MATTER WITH PRESIDENT MARCOS, BUT HAD NOT RPT NOT BEEN AS FORCEFUL WITH HIM AS HE WAS BEING IN HIS EXPOSITION TO ME BECAUSE OF KNOWN CLOSE ASSOCIATION BETWEEN PRESIDENT AND BENEDICTO. HOWEVER, HE INTENDED TO CALL MEETING OF SUGAR ASSOCIATION AND TRY TO DRAW UP PAPER WHICH WILL PUT THE PROBLEMS TACTFULLY BEFORE MARCOS.

6. ON EVENING NOVEMBER 20, I RAISED SITUATION WITH FINANCE
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PAGE 03 MANILA 16434 01 OF 02 212305Z

SECRETARY VIRATA, WHOSE IMMEDIATE REACTION WAS THAT HE "STAYED AWAY FROM" THE SUGAR BUSINESS. I SAID MATTER WENT BEYOND MERE MECHANICS OF SUGAR BUSINESS SINCE (A) IT HAD PRODUCED PHILIPPINE TRADE DEFICIT WITH U.S., (B) IT HAD COST PHILIPPINES HEAVY FOREIGN EXCHANGE LOSS AT A TIME WHEN VIRATA IS SEEKING OIL FACILITY CREDIT AS WELL AS OTHER FORMS OF AID IN WHICH U.S. INTERESTED, AND (C) IT APPEARED TO BE STRAINING RESOURCES OF PNB TO A POINT WHERE INTERESTED

PARTIES, SUCH AS USG, HAVE TO TAKE NOTICE OF IT. HTESE
COMMENTS CAUSED HIM TO DISCUSS MATTER MORE SERIOUSLY, BUT
REVEALED AGAIN A VERY CAUTIOUS AND WARY ATTITUDE ABOUT
CROSSING SWORDS WITH BENEDICTO.
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PAGE 01 MANILA 16434 02 OF 02 211114Z

70

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C O N F I D E N T I A L SECTION 2 OF 2 MANILA 16434

7. ON THE OTHER HAND, BENEDICTO HIMSELF MAY BE IN SOME
TROUBLE. THE ARTICLE IN THE DAILY EXPRESS WAS VERY
DEFENSIVE IN TONE AND PROBABLY REACTS TO THE WIDESPREAD
CRITICISM OF BENEDICTO'S SUGAR POLICIES AMONG MANILA
BUSINESS CIRCLES. SOME OF THIS CRITICISM HAS BEEN PUT
BEFORE PRESIDENT MARCOS RECENTLY BY THE VISITING PRESIDENT
OF MERRIL, LYNCH, WHO SUGGESTED TO THE PRESIDENT THAT HIS
FIRM COULD BE HELPFUL TO PHILEX WITH RESPECT COMMODITIES
FUTURES FOR TRADING PURPOSES. ON ANOTHER FRONT, THE
CANADIAN AMBASSADOR INFORMS ME THAT THE ROYAL BANK OF
CANADA IS PULLING OUT OF ITS EQUITY PARTICIPATION IN A BANK
CHAired BY BENEDICTO BECAUSE OF ITS DISSATISFACTION WITH
BENEDICTO'S LACK OF BUSINESS ETHICS. THIS ISSUE ALSO CAME
TO ATTENTION OF MARCOS WHEN ROYAL BANK THREATENED TO SUE
AND EXPOSE BENEDICTO'S ACTIONS UNLESS PRESIDENT APPROVED

THEIR WITHDRAWAL.

8. IT IS NOT RPT NOT CLEAR TO ME HOW FULLY MARCOS
COMPREHENDS MESS HIS FRIEND BENEDICTO HAS CREATED BY HIS
DISASTROUS HANDLING OF SUGAR MARKETING, BUT I MUST ASSUME
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PAGE 02 MANILA 16434 02 OF 02 211114Z

THAT ITS DIMENSIONS ARE PERCEIVED. THERE IS HARDLY ANY
WAY PHILIPPINES CAN EXTRACT ITSELF WITHOUT LOSSES, ESPECIALLY
LOSSES TO THE PNB, MARCOS IS REPORTED TO BE CONSIDERING
LONG-TERM CONTRACTS WITH U.S. INDUSTRIAL BUYERS WHICH WOULD
FIX QUANTITIES BUT NOT PRICES. IF HE MOVES IN THIS
DIRECTION, HE WOULD PROBABLY AT SAME TIME SACK BENEDICTO
FROM HIS SUGAR RESPONSIBILITIES AND MOVE HIM AT ARM'S LENGTH
FROM THE SEATS OF POWER. IN THE MEANTIME, WHILE THE SUGAR
INDUSTRY WAITS FOR SOME DECISION TO BE MADE, MOUNDS OF
RAW SUGAR ARE PILING UP ALL OVER THE VISAYAS AND THE TEMPER
OF SUGAR MEN ARE RISING ALL OVER THE LAND.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: SUGAR, PRESS COMMENTS, POLICIES
Control Number: n/a
Copy: SINGLE
Draft Date: 21 NOV 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: SmithRJ
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975MANILA16434
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750406-0857
From: MANILA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19751121/aaaaasbe.tel
Line Count: 192
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: SmithRJ
Review Comment: n/a
Review Content Flags:
Review Date: 07 MAY 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <07 MAY 2003 by ElyME>; APPROVED <06 OCT 2003 by SmithRJ>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: PHILIPPINE SUGAR POLICY
TAGS: EAGR, RP
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006